

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

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NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /091 W

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R 111320Z AUG 75

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 5732

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E.O.11652: N/A

TAGS: EFIN, EIND, EINV

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS: LEBANON

REF: BEIRUT A-70 3/23/73, 4752 4/23/75; STATE 165596

1. (U) INVESTMENT CLIMATE STATEMENT FOR LEBANON: THE NEARLY 300 AMERICAN FIRMS IN LEBANON ARE FOR THE MOST PART REGIONAL SALES AND REPRESENTATIVE OFFICES IN THE ARAB HINTERLAND AND SOMETIMES FURTHER AFIELD, THEY FORM A SORT OF ENCLAVE SOCIETY RELATIVELY LITTLE AFFECTED BY THE POLITICS AND ECONOMY OF LEBANON. SPURRED BY NASSER'S TAKEOVER OF EGYPT, BEIRUT RAPIDLY DEVELOPED INTO A REGIONAL COMMERCIAL CENTER DUE TO ITS ATTRACTIVE COMBINATION OF TEMPERATE CLIMATE, COOL MOUNTAINS AND SEA ON ASIAT'S DOORSTEP; ITS LITERATE, BILINGUAL AND OFTEN TRILINGUAL LABOR FORCE; GOOD AIR SERVICE, LAISSEZ FAIRE ECONOMY AND STRICT BANK SECRECY, RELATIVE (AT LEAST UP TO NOW) POLITICAL STABILITY, GOOD EDUCATIONAL FACILITIES AND OTHER AMENITIES FOR WESTERN FAMILIES. AMERICAN EQUITY INVESTMENT CONCENTRATES IN PETROLEUM, BANKING AND MANUFACTURING. THE OLDEST SECTOR, PETROLEUM (MAINLY TWO CRUDE PIPELINES AND ASSOCIATED REFINING AND MARKETING REMAINS THE LARGEST SINGLE INVESTMENT SECTOR BY VALUE BUT IS DECLINING; LONG STANDING, UNRESOLVED INDUSTRY DISPUTES WITH

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THE GOVERNMENT HAVE DISCOURAGED RE-INVESTMENT OR NEW INVEST-

MENT DESPITE A PRESSING NEED FOR ADDITIONAL REFINERY CAPACITY. EQUITY INVESTMENT IN BANKING HAS GROWN VERY RAPIDLY IN THE PAST FEW YEARS IN RESPONSE TO THE PETRODOLLAR BOOM AND NOW RIVALS THAT IN PETROLUUM. THE BANKING INFLUX HAS SLOWED RECENTLY, PARTLY FROM UNCERTAINTY OVER GOVERNMENT CREDIT POLICY AND THE ENVIRONMENT FOR ADDITIONAL FOREIGN ENTRANTS IN NONCOMMERCIAL BANKING. IT IS WORTH NOTING THAT AMERICAN AND OTHER FOREIGN INVESTMENT IS STRONG IN THESE TWO IMPORTANT SECTORS, DOMINATING PETROLUUM AND HANDLING A DISPROPORTIONATE SHARE OF COMMERCIAL BANKING ACTIVITY. ALTHOUGH THIS RESULTS FROM HISTORY, PRIMARILY A PREVIOUS LACK OF LOCAL EXPERTISE OR INTEREST IN THESE FIELDS, IT IS TO BE EXPECTED THAT OVER THE LONG RUN THERE WILL BE PRESSURES FOR GREATER LOCAL PARTICIPATION IN THESE SECTORS. AMERICAN INVESTMENT IN MANUFACTURING, OFTEN IN JOINT VENTURES, IS IN KEEPING WITH THE MODEST SIZE OF THE SECTOR BUT THE GOVERNMENT APPEARS TO WELCOME FOREIGN INVESTMENT HERE, AT LEAST IN SELECTED FIELDS, PARTICULARLY WHEN ACCOMPANIED BY TECHNOLOGY TRANSFER. TAX AND TARIFF BENEFITS ARE AVAILABLE TO CERTAIN NEW INDUSTRIES AND THE 18 MONTH OLD MINISTRY OF INDUSTRY IS EXAMINING ADDITIONAL INVESTMENTS. IN RECENT YEARS BEIRUT'S ATTRACTION AS A REGIONAL CENTER HAS BEEN MARRED BY CIVIL STRIFE IN AND AROUND BEIRUT, CHRONIC PALESTINIAN-ISRAELI CLASHES IN THE SOUTH, ASSOCIATED POLITICAL INSTABILITY AND SOCIAL STRAINS, ANNUAL INFLATION RATES OF 15 PER CENT AND TWICE THAT FOR EXPATRIATE RENTS, DETERIORATING MAIL AND COMMUNICATIONS SERVICES AND A DECLINE IN THE QUALITY OF LIFE DUE TO RAPIN AND UNCONTROLLED URBANIZATION. AT THIS WRITING BEIRUT IS EMERGING FROM ANOTHER ROUND OF URBAN FIGHTING, THE WORST IN MODERN TIMES. THREE MONTHS OF SPORADIC FIGHTING AND LAWLESSNESS IN THE SPRING HALTED ECONOMIC ACTIVITY AND SEVERELY AFFECTED CONFIDENCE IN THE COUNTRY'S ABILITY TO COPE WITH LONG STANDING PROBLEMS. WITH REASONABLE ORDER RESTORED, AN EMERGENCY GOVERNMENT IS MAKING STRENUOUS EFFORTS TO ASSUAGE POLITICAL AND SOCIAL GRIEVANCES, RESTORE DOMESTIC AND FOREIGN CONFIDENCE AND IMPROVE MAIL AND COMMUNICATIONS. AS WAS THE CASE FIVE YEARS AGO AFTER PROTRACTED POLITICAL TROUBLES AND EXASPERATIONS WITH MAIL AND FOREIGN FIRMS ARE EXAMINING ALTERNATIVE LOCATIONS. DESPITE THE ANNOUNCED CLOSING OF ONE LARGE AMERICAN REGIONAL OFFICE, MOST AMERICAN AND FOREIGN FIRMS HERE ARE MARKING TIME. POSSIBLY HALF A DOZEN HAVE LEFT, MOST CITING NORMAL BUSINESS LIMITED OFFICIAL USE

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REASONS, AND PERHAPS A DOZEN ARE DISPERSING OPERATIONS AROUND THE AREA, A TREND WHICH PRECEDED THE FIGHTING. WHILE THE REGIONAL MARKET AND INVESTMENT OPPORTUNITIES HAVE EXPANDED CONSIDERABLY IN RECENT YEARS, THE CLIMATE FOR FUTURE DIRECT EQUITY INVESTMENT COULD

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TO SECSTATE WASHDC 5733

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BE AFFECTED BY A NUMBER OF POLITICAL UNCERTAINTIES. THERE IS A CONSENSUS THAT LAISSEZ FAIRE HAS GONE TOO FAR BUT NO CLEAR COUNTERVAILING TREND AS YET. IT IS CLEAR, HOWEVER, THAT INSISTENT DEMANDS FOR ECONOMIC AND SOCIAL DEVELOPMENT WILL REQUIRE HIGHER TAXES EVENTUALLY. IN THE ABSENSE OF A COMMERCIAL TREATY OR AN INVESTMENT GUARANTEE AGREEMENT WITH THE U.S. PROSPECTIVE AMERICAN EQUITY INVESTORS SHOULD INVESTIGATE CAREFULLY.

2. (LOU) OF DIRECT INVESTMENT STATISTICS REQUESTED BY REFTTEL, ONLY NET BOOK VALUE ESTIMATES ARE AVAILABLE, AS FOLLOWS IN MILLIONS OF DOLLARS.

TOTAL ALL INDUSTRIES 55.5

MINING --

PETROLEUM 13.2

MANUFACTURING 6.5

OTHER# 35.8

#BANKING IS 22.8 OF OTHER

3. (LOU) IT IS REQUESTED THAT ONLY THE TOTAL BE PUBLISHED IN UNCLASSIFIED FORM. SOME OIL COMPANIES PROVIDED DATA ON CONDITION IT NOT PUBLISHED. PUBLICATION MIGHT AFFECT THEIR NEGOTIATIONS WITH GOL. ALTHOUGH GOL SHOULD BE ABLE CALCULATE OIL COMPANIES ASSET VALUE FROM OWN DATA, USG SHOULD NOT REVEAL
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4. (U) METHODOLOGY: SAME AS LAST YEAR (PARA 4 BEIRUT 4752, APRIL 23,1974) IMPLICIT MARGIN OF ERROR MEANS TRUE INVESTMENT FIGURE COULD RANGE FROM \$50-60 MILLION.

5. (LOU) COMMENTS ON SECTORS: OTHER SECTOR MAINLY BANKING, HOTELS AND BEIRUT'S MANY REGIONAL OFFICES. BANKING FIGURE INCLUDES \$10.6 MILLION US COMMODITY CREDIT CORP. SHARE IN INTRA INVESTMENT CORP. THIS IS TO BE SOLD, PROBABLE TO GOL, FIRST OPTION-HOLDER. BANKING ALSO INCLUDES FOR FIRST TIME 1973 MORGAN GUARANTY PURCHASE FOR \$2.4 MILLION OF 40 PERCENT OF BANK AL MASHREK. OTHER SECTOR ALSO INCLUDES \$500.00 "GUESSTIMATE" FOR LARGE REGIONAL OFFICE OF BECHTEL CORP., WHICH ANNOUNCED RECENTLY IT WOULD CLOSE. WE NORMALLY ESTIMATE VALUE OF REGIONAL OFFICES AT AVERAGE \$10PP EACH BUT FOR 1974 RAISED AVERAGE (FOR 175 OFFICES) TO \$15,00 TO ACCOMMODATE INFLATION, INFLATING OTHER SECTOR BY \$1.4 MILLION.PETROLUEM SECTOR TAPLINE \$3.4 MILLION. MEDRECO REFINERY \$1.2 MILLION, MOBIL EXXON 23.75 PER CENT SHARE OF IRAQ PETROLEUM CO. (IPC) \$5.1 MILLION. IPC FIGURE IS SENSITIVE DUE UNSETTLED 1973 TAKEOVER IPC. GENERAL COMMENTS: DUE ENDLESS DISPUTES WITH GOL, PETROLEUM SECTOR SHRINKING FROM ABSENCE NEW INVESTMENT. BANKING PORTION OF OTHER SECTOR (EXCLUDING INTRA HOLDING) GAINING ON PETROLEUM. IF OTHER INVESTMENTS REMAIN UNCHANGED, INTRA AND IPC HOLDINGS DISPOSED OF AND BECHTEL ACTUALLY CLOSES US INVESTMENT LEBANON WOULD DROP BY ABOUT \$16 MILLION. FINALLY, SHOULD BE NOTED THAT FLUCTUATING EXCHANGE RATES CAUSE SOME YEAR TO YEAR VARATION SAME INVESTMENTS.

6. (U) COMMENT ON THIS SURVEY: SUGGEST THIS EXERCISE WOULD BE MORE FRUITFUL IF MADE A REGULARLY SCHEDULED CERP REPORT, PERMITTING POSTS WORK ON IT IN ADVANCE. ASSUMING WE WOULD, ABOUT MARCH OF THIS YEAR, RECEIVE REQUEST FOR 1973 DATA ON USUAL SHORT NOTICE, POST BEGAN COLLECTING 1973 ESTIMATES IN LATE 1974. PROJECT DROPPED WHEN NO REQUEST RECEIVED BY APRIL THIS YEARS REQUEST FOR 1974 DATA WITH THREE WEEK DEADLINE ARRIVED AFTER START OF HOME LEAVE, VACATION AND TRANSFER SEASON WHEN UNDER MANNED POST UNABLE PROPERLY EXECUTE MAJOR PROJECTS ON SHORT NOTICE. WOULD APPRECIATE LEARNING IF THIS SURVEY HAS BECOME ANNUAL FIXTURE.
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